

## Siyaram Silk Mills

### Performance Update

Y/E March (₹ cr)	3QFY18	3QFY17	% yoy	2QFY18	% qoq
<b>Net sales</b>	394	339	16.1	428	(8.1)
EBITDA	50	42	20.3	70	(28.0)
EBITDA margin (%)	12.8	12.4	45bp	16.3	(353bp)
<b>Adjusted PAT</b>	22	14	64.1	30.7	(27.0)

Source: Company, Angel Research

For 3QFY2018, Siyaram Silk Mills (SSM) posted good set of results, exceeding our expectations on both, top-line as well as bottom-line fronts. Revenues grew by ~16% yoy (above our estimate). On the operating front, the company reported operating margin improvement. On the bottom-line front, SSM reported growth of ~64% yoy to ₹22cr on the back of strong top-line growth, higher other income and lower taxes.

**Top-line driven by strong volume growth:** The Company's top-line grew by ~16% yoy to ₹394cr on the back of strong growth in volume and price hike.

**Strong revenue growth and operating performance boost overall profitability:** On the operating front, the company's margin has improved by 45bbp yoy at 12.8%. The company reported ~64% yoy rise in its net profit to ₹22cr on the back of strong revenue growth, higher other income and lower taxes.

**Outlook and Valuation:** Going forward, we expect SSML to report a net sales CAGR of ~12% to ~₹1,981cr and adj.net profit CAGR of ~16% to ₹126cr over FY2017-19E on back of market leadership in blended fabrics, strong brand building, wide distribution channel, strong presence in tier II and tier III cities and emphasis on latest designs and affordable pricing points. At the current market price, SSML trades at an inexpensive valuation. **We have a buy recommendation on the stock and target price of ₹813.**

### Key Financials

Y/E March (₹ cr)	FY2016	FY2017	FY2018E	FY2019E
<b>Net sales</b>	<b>1,619</b>	<b>1,574</b>	<b>1,769</b>	<b>1,981</b>
% chg	7.2	(2.8)	12.4	12.0
<b>Adj. Net profit</b>	<b>88</b>	<b>91</b>	<b>108</b>	<b>126</b>
% chg	87.6	91.0	108.2	125.5
EBITDA margin (%)	11.6	12.5	13.0	13.0
<b>EPS (₹)</b>	<b>18.7</b>	<b>19.4</b>	<b>23.1</b>	<b>26.8</b>
P/E (x)	35.3	33.9	28.5	24.6
P/BV (x)	6.0	5.2	4.5	3.9
RoE (%)	17.1	15.4	15.7	15.7
RoCE (%)	16.3	14.3	15.8	16.5
EV/Sales (x)	2.1	2.2	1.9	1.7
EV/EBITDA (x)	18.2	17.3	14.8	12.9

Source: Company, Angel Research Note: CMP as of February 02, 2018

### BUY

CMP	₹627
Target Price	₹813
Investment Period	12 month

#### Stock Info

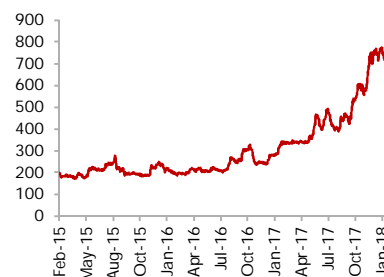
Sector	Cable
Market Cap (Rs cr)	2,939
Net Debt	314
Beta	0.6
52 Week High / Low	799/287
Avg. Daily Volume	2,781
Face Value (Rs)	10
BSE Sensex	35,067
Nifty	10,761
Reuters Code	SIYR.BO
Bloomberg Code	SIYA IN

#### Shareholding Pattern (%)

Promoters	67.1
MF / Banks / Indian FIs	9.4
FII / NRIs / OCBs	1.7
Indian Public / Others	21.8

Abs. (%)	3m	1yr	3yr
Sensex	6.9	27.6	23.3
SSM	11.1	130.5	232.0

### Historical share price chart



Source: Company, Angel Research

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**Exhibit 1: 3QFY2018 Performance**

Y/E March ( cr)	3QFY18	3QFY17	% chg (yoy)	2QFY18	% chg (qoq)	9MFY18	9MFY17	% chg
<b>Net Sales</b>	<b>394</b>	<b>339</b>	16.1	<b>428</b>	(8.1)	<b>1,137</b>	<b>1,045</b>	8.8
Net raw material	163.2	141	15.9	182.29	(10.5)	474.3	472.19	0.4
(% of Sales)	41.5	41.6	(9)	42.6	(110)	41.7	45.2	
Employee Cost	47	42	11.5	47	1.4	138	124	11.2
(% of Sales)	12.0	12.5	(50)	10.9	112	12.1	11.9	
Other Expenses	133	114	16.6	129	2.6	377	325	15.8
(% of Sales)	33.7	33.6	14	30.2	351	33.1	31.1	
<b>Total Expenditure</b>	<b>343</b>	<b>297</b>	15.5	<b>358</b>	(4.2)	<b>989</b>	<b>922</b>	7.3
<b>Operating Profit</b>	<b>50</b>	<b>42</b>	20.3	<b>70</b>	(28.0)	<b>148</b>	<b>124</b>	20
OPM (%)	12.8	12.4	45	16.3	(353)	13.00	11.82	118
Interest	9	9	2.2	7	38.5	22	26	(14.4)
Depreciation	15	17	(10.9)	15	(3.4)	45	43	5.2
Other Income	8	5	44.4		#DIV/0!	18	18	(2.4)
<b>PBT</b>	<b>34</b>	<b>22</b>	57.7	<b>48</b>	(28.7)	<b>98</b>	<b>73</b>	34.6
(% of Sales)	8.7	6.4		11.2		8.6	7.0	
Tax	12	8	46.9	17	(31.7)	35	26	35.3
(% of PBT)	34.4	36.9		35.9		35.4	35.2	
<b>Reported PAT</b>	<b>22</b>	<b>14</b>	64.1	<b>31</b>	(27.0)	<b>64</b>	<b>47</b>	34.3
PATM	5.7	4.0		7.2		5.6	4.5	

Source: Company, Angel Research

## Outlook and Valuation

Going forward, we expect SSML to report a net sales CAGR of ~12% to ~`1,981cr and adj.net profit CAGR of ~16% to `126cr over FY2017-19E on back of market leadership in blended fabrics, strong brand building, wide distribution channel, strong presence in tier II and tier III cities and emphasis on latest designs and affordable pricing points. At the current market price, SSML trades at an inexpensive valuation. **We have a buy recommendation on the stock and target price of ` 813.**

Downside risks to our estimates include

**Decline in rural spending:** Unseasonal rains or deficient rainfall in the rural areas may result in lower agriculture output. This, in turn, could result in lower discretionary spending among rural consumers, which could impact the company's overall sales.

**Competition from the unorganized sector:** SSML, being in a sector that's highly fragmented, faces intense competition from unorganized players as they usually sell their products at a much cheaper rate compared to it. However, due to strong branding efforts, huge distribution network and affordable price points, the company is easily able to differentiate its products from those of competitors.

**Fluctuation in raw material prices:** SSML operates in a highly price-sensitive market. Any fluctuation in raw-material prices can lead to margin compression, as the company may not be able to pass on the entire increase to the end-user.

## Company Background

SSML is the largest manufacturer of blended fabrics in India. The company enjoys a strong brand presence across the country, with brands such as Siyaram's, Mistair, MSD, J. Hampstead and Oxemberg in its kitty. The company has also launched three premium brands - Royal Linen (linen fabrics for men and women), Moretti (cotton shirting) and Zenesis (cotton suitings). SSML has built a strong brand presence in the country through continuous advertisement and brand building efforts over the past 30 years. The company has created a niche for itself in a highly competitive industry. It has a wide distribution network comprising 1,600 dealers and 500 agents supplying to more than 40,000 outlets across India and has ~160 franchise stores. The company operates four plants – one at Tarapur near Mumbai for weaving and yarn dyeing, two at Daman for garments and one at Silvassa for weaving.

**Profit & Loss Statement**

Y/E March ( ` cr)	FY2016	FY2017	FY2018E	FY2019E
<b>Total operating income</b>	<b>1,619</b>	<b>1,574</b>	<b>1,769</b>	<b>1,981</b>
% chg	7.2	(2.8)	12.4	12.0
<b>Total Expenditure</b>	<b>1,432</b>	<b>1,377</b>	<b>1,539</b>	<b>1,724</b>
Cost of Materials	810	739	934	1,046
Personnel	144	169	150	168
Others Expenses	478	470	455	509
<b>EBITDA</b>	<b>188</b>	<b>197</b>	<b>230</b>	<b>258</b>
% chg	7.8	4.8	16.9	12.0
(% of Net Sales)	11.6	12.5	13.0	13.0
Depreciation& Amortisation	42	55	58	60
<b>EBIT</b>	<b>146</b>	<b>142</b>	<b>172</b>	<b>197</b>
% chg	9.6	(2.7)	20.6	15.0
(% of Net Sales)	9.0	9.0	9.7	10.0
Interest & other Charges	30	32	32	32
Other Income	17	26	22	22
(% of PBT)	12.9	18.8	13.6	11.7
Share in profit of Associates	-	-	-	-
<b>Recurring PBT</b>	<b>133</b>	<b>136</b>	<b>162</b>	<b>187</b>
% chg	11.6	2.4	18.8	16.0
Prior Period & Extraordinary Expense/(Inc.)	-	-	-	-
<b>PBT (reported)</b>	<b>133</b>	<b>136</b>	<b>162</b>	<b>187</b>
Tax	45	45	53	62
(% of PBT)	34.0	33.1	33.0	33.0
<b>PAT (reported)</b>	<b>88</b>	<b>91</b>	<b>108</b>	<b>126</b>
Add: Share of earnings of associate	-	-	-	-
<b>ADJ. PAT</b>	<b>88</b>	<b>91</b>	<b>108</b>	<b>126</b>
% chg	11.1	3.9	18.9	16.0
(% of Net Sales)	5.4	5.8	6.1	6.3
<b>Basic EPS ( ` )</b>	<b>18.7</b>	<b>19.4</b>	<b>23.1</b>	<b>26.8</b>
<b>Fully Diluted EPS ( ` )</b>	<b>18.7</b>	<b>19.4</b>	<b>23.1</b>	<b>26.8</b>
% chg	11.1	3.9	18.9	16.0

**Balance Sheet**

Y/E March ( ` cr)	FY2016	FY2017	FY2018E	FY2019E
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	9	9	9	9
Reserves& Surplus	503	583	678	788
<b>Shareholders Funds</b>	<b>512</b>	<b>592</b>	<b>687</b>	<b>798</b>
Minority Interest	-	-	-	-
Total Loans	386	400	400	400
Deferred Tax Liability	23	23	23	23
<b>Total Liabilities</b>	<b>920</b>	<b>1,015</b>	<b>1,110</b>	<b>1,220</b>
<b>APPLICATION OF FUNDS</b>				
Gross Block	609	639	659	679
Less: Acc. Depreciation	299	354	412	472
Net Block	<b>310</b>	<b>286</b>	<b>247</b>	<b>207</b>
Capital Work-in-Progress	7	7	7	7
Investments	46	46	46	46
Current Assets	774	853	1,002	1,181
Inventories	326	336	388	434
Sundry Debtors	368	367	422	472
Cash	7	40	47	112
Loans & Advances	57	79	106	119
Other Assets	16	31	39	44
Current liabilities	221	182	196	219
<b>Net Current Assets</b>	<b>553</b>	<b>671</b>	<b>806</b>	<b>962</b>
<b>Deferred Tax Asset</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>
Mis. Exp. not written off	-	-	-	-
<b>Total Assets</b>	<b>920</b>	<b>1,015</b>	<b>1,110</b>	<b>1,220</b>

**Consolidated Cashflow Statement**

Y/E March ( ` cr)	FY2016	FY2017	FY2018E	FY2019E
Profit before tax	133	136	162	187
Depreciation	42	55	58	60
Change in Working Capital	(127)	(86)	(127)	(91)
Interest / Dividend (Net)	30	32	32	32
Direct taxes paid	(45)	(45)	(53)	(62)
Others	-	-	-	-
<b>Cash Flow from Operations</b>	<b>33</b>	<b>92</b>	<b>72</b>	<b>127</b>
(Inc.)/ Dec. in Fixed Assets	(112)	(30)	(20)	(20)
(Inc.)/ Dec. in Investments	(46)	-	-	-
<b>Cash Flow from Investing</b>	<b>(66)</b>	<b>(30)</b>	<b>(20)</b>	<b>(20)</b>
Issue of Equity	-	-	-	-
Inc./(Dec.) in loans	78	16	2	3
Dividend Paid (Incl. Tax)	11	11	13	15
Interest / Dividend (Net)	(52)	(55)	(60)	(60)
<b>Cash Flow from Financing</b>	<b>37</b>	<b>(28)</b>	<b>(44)</b>	<b>(41)</b>
Inc./(Dec.) in Cash	4	33	7	65
<b>Opening Cash balances</b>	<b>3</b>	<b>7</b>	<b>40</b>	<b>47</b>
<b>Closing Cash balances</b>	<b>7</b>	<b>40</b>	<b>47</b>	<b>112</b>

### Key ratios

Y/E March	FY2016	FY2017	FY2018E	FY2019E
<b>Valuation Ratio (x)</b>				
P/E (on FDEPS)	35.3	33.9	28.5	24.6
P/CEPS	18.7	19.4	23.1	26.8
P/BV	6.0	5.2	4.5	3.9
Dividend yield (%)	1.6	1.7	2.0	2.3
EV/Sales	2.1	2.2	1.9	1.7
EV/EBITDA	18.2	17.3	14.8	12.9
EV / Total Assets	3.0	2.8	2.6	2.3
<b>Per Share Data (Rs)</b>				
EPS (Basic)	18.7	19.4	23.1	26.8
EPS (fully diluted)	18.7	19.4	23.1	26.8
Cash EPS	35.3	33.9	28.5	24.6
DPS	10.5	10.9	13.0	15.1
Book Value	109.3	126.4	146.7	170.3
<b>Returns (%)</b>				
ROCE	16.3	14.3	15.8	16.5
Angel ROIC (Pre-tax)	17.3	15.7	17.3	19.0
ROE	17.1	15.4	15.7	15.7
<b>Turnover ratios (x)</b>				
Asset Turnover (Gross Block)	2.7	2.5	2.7	2.9
Inventory / Sales (days)	74	78	80	80
Receivables (days)	83	85	87	87
Payables (days)	34	32	31	31
Working capital cycle (ex-cash) (days)	123	131	136	136

Source: Company, Angel Research

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Disclosure of Interest Statement	Siyaram Silk Mills
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

*Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors*

<b>Ratings (Returns):</b>	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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